The increase in selling, general and administrative costs resulted from higher employee benefit costs at U S WEST Communications, increased marketing costs related to an expanding cellular subscriber base, and marketing and related costs associated with publishing activities. Higher costs at Capital Assets included a higher provision for credit losses associated with the financial guarantee insurance business.

Depreciation and amortization expense, excluding real estate operations, increased by $50.9, or 2.8 percent. The increase is a result of a higher depreciable asset base and increased rates of depreciation sought by U S WEST Communications and provided by regulators in certain jurisdictions. These effects were partially offset by the completion of inside wire and depreciation reserve deficiency amortization programs in several jurisdictions.

Interest expense decreased by $57.3, or 8.4 percent, excluding real estate operations, principally due to the effects of lower interest rates and lower financing needs in both industry segments. U S WEST's average borrowing cost decreased to 7.7 percent from 8.3 percent in 1991.

Other income (expense) includes $51.8 of interest income associated with a 1992 tax settlement with the Internal Revenue Service, partially offset by $35.9 in call premium expenses associated with the retirements of six debt issues to take advantage of lower interest rates. International joint venture equity losses decreased by $17.2 in 1992, to $42.7, as a result of new partnership arrangements in our cable ventures.

PROVISION FOR INCOME TAXES

			Increase (Decrease)	
	1992	1991	$	%
Provision for income taxes	$ 535.0	$ 187.3	$ 347.7	185.6
Effective tax rate	31.2%	25.3%	–	–

Before the 1992 change in accounting principles, which is shown net of tax.

The 1992 provision for income taxes as a percentage of income before income taxes and cumulative effect of change in accounting principles increased almost entirely as a result of the $915 restructuring charge in 1991. Excluding the effects of the restructuring charge, the 1991 effective tax rate would have been 31.0 percent.

In 1993, U S WEST will implement SFAS No. 109, "Accounting for Income Taxes." Adoption of the new standard will not have a material effect on the Company's financial position or results of operations, primarily because of the Company's 1989 adoption of SFAS No. 96 which reflects deferred income taxes at current income tax rates.

OTHER ITEMS

1991 Restructuring Charge

Approximately $500 of the $915 restructuring charge in 1991 related to a real estate valuation allowance, of which $402.5 remains at December 31, 1992. Real estate revenues of $214.2, less operating expenses of $212.8 and interest expense of $98.9, were charged to the valuation allowance in 1992. Though the valuation allowance is currently adequate, weakness in the commercial real estate market persists and disposition of the real estate assets has proceeded at a slower pace than originally planned. The Company's current plan is to dispose of its real estate portfolio over the next several years. The Company may hold real estate assets longer than originally anticipated in order to realize book values.

An additional $240 of the 1991 restructuring charge relates to a reserve for planned workforce reductions totaling 6,000 employees over three years at U S WEST Communications. The reserve balance at December 31, 1992, approximates $160. During 1992, U S WEST Communications reduced its employee level by approximately 2,300 employees, about 2,000 of which resulted from the workforce reduction program. Total wages and salaries charged to operations at U S WEST Communications increased by approximately $26 or 1.5 percent during 1992, largely due to the effects of wage increases which offset the impact of workforce reductions. The effect of the workforce reductions was not fully realized in 1992 because the reductions occurred throughout the year.

Federal Regulatory Issues

In October 1992, the FCC adopted an order requiring that certain telephone companies, including U S WEST Communications, allow competitive access providers to collocate their equipment in telephone company central office facilities. The order, which is effective in May 1993, applies only to interstate special access (i.e. private line) services generally provided to large business users. It is expected that the order will increase competition and result in lower prices for special access services, which accounted for about 11 percent of U S WEST Communications' interstate access revenues during 1992. Under the order, U S WEST Communications would obtain additional flexibility in pricing these services. The FCC is considering whether a similar order should be extended to switched access services.

In August 1992, the FCC adopted an order allowing telephone companies to deliver video programming developed by others and to provide certain other video services including video gateways, billing and collection services and video customer premises equipment. The FCC also recommended that Congress repeal the "in-region" cable ownership restriction imposed on telephone companies. These recent and proposed actions would allow the Company access to provide cable television and other services within its telephone service area.

Also, in August 1992, the FCC issued a Notice of Proposed Rulemaking to establish Personal Communications Services ("PCS"). PCS offers users mobile voice and data communications capabilities similar to existing cellular service, though usage may be limited to local communities or within a business complex. PCS is viewed as a potential competitor to both the local exchange and cellular businesses. The Company intends to pursue PCS opportunities.

U S WEST's interstate services have been subject to price cap regulation since January 1991. Price caps are a form of incentive regulation and, ostensibly, limit prices rather than profits. However, the FCC's price cap plan includes sharing of earnings in excess of authorized levels. The Company believes that competition will ultimately be the determining factor in pricing telecommunications services.

The FCC has adopted a regulatory structure known as "Open Network Architecture," under which U S WEST Communications is required to unbundle its telephone network services in a manner which will accommodate the service needs of the growing number of information service providers.

State Regulatory Issues

There are pending regulatory actions in local regulatory jurisdictions which call for rate reductions, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing certain exceptions to the rule against retroactive ratemaking. The Commission's initial order denied a refund request from an interexchange carrier related to the Tax Reform Act of 1986. If the Commission reverses its earlier decision, the Company could be liable for refunds, although at this time any such amount is not reasonably estimable.

U S WEST Communications has sought alternative forms of regulation ("AFOR") plans which provide for competitive parity, enhanced pricing flexibility and improved capability in bringing to market new products and services. In a number of states where AFOR plans have been adopted, such actions have been accompanied by agreements to refund revenues, reduce existing rates or upgrade service, any of which could have adverse short-term effects on earnings. Similar agreements may have resulted under traditional rate of return regulation.

U S WEST Communications has AFOR plans in the states of Washington, Minnesota, Oregon, New Mexico, Idaho, Nebraska, North Dakota and South Dakota, and an AFOR plan is under consideration in Colorado.

Competition

Regulatory, legislative and judicial actions have been leading to a more competitive environment for local exchange companies. Perhaps even more importantly, as a result of rapid technological change, the computer, cable television and telecommunications industries are starting to converge, a development which will lead to more competition and new strategic alliances in the future. With respect to local exchange service, competition is expected from a host of potential players, including cable television companies, competitive access providers ("CAPs"), cellular companies, providers of PCS and the interexchange carriers.

Currently, competition from long distance companies is eroding U S WEST Communications' market share of intraLATA long distance services such as WATS and "800." These revenues have steadily declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. U S WEST and its affiliates are prohibited from providing interLATA long distance services.

Competition from CAPs is currently limited to providing large business customers (with high volume traffic) private line access to the facilities of interexchange carriers. In coming years, CAPs could also become significant competitors for other local exchange services.

The planned entrance of AT&T into the cellular arena through its proposed investment in McCaw Cellular Communications Inc. ("McCaw") creates a new competitor for providers of cellular and, potentially, local exchange services. The AT&T/McCaw alliance would include a nationwide long distance network, equipment manufacturing, research expertise and national branding. This alliance could ultimately lead to a reduction in revenues, including access charges. A substantial portion of AT&T's operating costs are represented by such access charges.

In addition to CAPs and providers of wireless services, including PCS, a major potential source of future competition includes cable television companies which may offer telecommunications and other information services in addition to existing video services.

The impact of increased competition on the operations of U S WEST Communications will be influenced by the future actions of regulators and legislators who, increasingly, are advocating competition. For example, at the federal level, as described above, collocation will position alternative service providers to compete with local exchange carriers for a variety of telecommunications services, although the ultimate financial impact of the FCC order is not readily determinable.

U S WEST Competitive Strategy

The Company is working to meet the competition by focusing on cost control, new products and services, network modernization and development of new communications-related businesses. To be competitive, the Company intends to commit significant resources to its network - with the objective of having a network in the future that is less costly to build and operate, yet is more functional. Through its international investments, particularly in the United Kingdom, the Company is able to participate directly in the convergence of cable television and telecommunications without the in-region constraints that exist domestically.

U S WEST recognizes that it must continue to narrow the cost-of-service disadvantage with current and potential competitors. Labor-related costs comprise approximately one-third of the total operating costs of U S WEST Communications. The Company will continue its efforts to control these costs, primarily through productivity improvements and reductions in staffing.

U S WEST Communications obtained approximately $136 of revenues from new products and services during 1992, an increase of $32, or 30 percent, over 1991. Significant new products include voice messaging, now two years old with an installed customer base exceeding 500,000, and Custom Local Area Signaling Services ("CLASS"), which include features such as caller identification. Self-healing network services, which provide medium and large users, including interexchange carriers, with built-in redundancy which reduces the risk of network downtime, were also expanded in 1992.

During 1992, U S WEST continued expanding its international ventures, which include investments in cable television and telecommunications, wireless communications including PCS, and international networks. U S WEST's net investment in international ventures approximated $345 at December 31, 1992, approximately 64 percent of which is in the United Kingdom. Of the total international investment, approximately 69 percent is invested in cable television joint ventures, mostly in the United Kingdom and Western Europe. Cable TV subscribers in our United Kingdom joint ventures increased to 143,000, compared to 88,000 one year ago. Additionally, the Company is providing 76,000 telephone access lines in the United Kingdom, compared to 21,000 in 1991.

Because our international investments are in new, developing businesses, they typically are in a high growth, reinvestment phase for several years and do not show net income or positive cash flow until they become more mature. Consequently, start-up losses from these investments, in total, are expected to increase in 1993 and possibly beyond. The Company's future commitment to international ventures is currently planned at about $325 over the next five years, but could increase as new opportunities become available.

U S WEST intends to focus significant future efforts on network modernization and the development of new communications-related businesses. Starting in 1993, U S WEST Communications will begin to build a broadband fiber and coaxial cable prototype network which will accommodate entertainment as well as communications services. The Company anticipates converting about 500,000 access lines per year in high growth, metropolitan areas to this technology, which will position U S WEST to compete with all future providers of voice, data and video services.

Strategic alliances, which have been employed by U S WEST in its international operations, may be employed domestically to develop the new communications-related businesses. For example, U S WEST and Tele-Communications, Inc., with AT&T, are partners in test marketing video-on-demand services. In addition to strategic alliances, the Company may make direct investments in assets or businesses that are consistent with this strategy. Such investment activities could require large amounts of capital. Financing for any of these types of activities will come from a combination of debt, equity or proceeds from the disposition of assets or businesses which no longer fit U S WEST's strategic objectives. The Company is currently exploring its strategic alternatives with respect to businesses not directly involved in telecommunications.

While a competitive telecommunications industry would benefit both providers and users of telecommunications services, the Company believes it is essential that current restraints under which it operates, including restrictions on equipment manufacturing, prohibitions on cross-ownership of cable television by telephone companies and the provisioning of cable television programming content, and the transport of voice, video and data across LATA boundaries, be lifted to place all competitors under the same rules in order to ensure the industry's technological development and long-term financial health.

Other

In September 1992, non-management labor contracts between certain U S WEST companies and various unions were ratified. Wages will increase approximately 12 percent over the three-year life of the contracts, which also provide for benefit upgrades. The contracts represent nearly $250 worth of cumulative wage and benefit improvements over the three-year term.

U S WEST Communications currently accounts for the economic effects of regulation in accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." In the event that recoverability of operating costs through rates becomes unlikely or uncertain, whether resulting from competitive effects or specific regulatory actions, SFAS No. 71 would no longer apply. The financial effects (which would be non-cash) of an accounting change, should U S WEST Communications no longer qualify for the provisions of SFAS No. 71, could be material. U S WEST Communications did not establish any regulatory assets for financial reporting purposes in conjunction with its adoption of SFAS No. 106 because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities increased by $326.3, or 11.0 percent, over 1991. Improved cash flow in Communications and Related Services, including the effects of lower financing costs and the tax settlement, contributed to improved cash flow from operations. Cash from operations is the primary source by which U S WEST funds its capital obligations and shareholder dividends. The Company expects that cash from operations will fund the major share of expected future requirements for existing businesses. Additional financing will be met through debt, equity or proceeds from the disposition of assets or businesses.

Long-term debt, including amounts classified as current, decreased by $765 compared to the prior year. During 1992, U S WEST called for early redemption of six debt issues aggregating $747 in principal amount. The redemptions were achieved through issuing short-term replacement debt at lower interest rates and through the use of cash resources. U S WEST has benefited from the cyclical decline in short-term interest rates by increasing its use of short-term financing, though a portion of this benefit has been offset by lower interest income on short-term investments. The Company could be exposed to higher interest costs on the short-term portion of its debt in the event of an abrupt increase in interest rates.

U S WEST manages a portion of its interest rate exposure by engaging in domestic and foreign interest rate swap and option agreements with creditworthy third parties. Foreign currency exposure related to international investing activities is similarly managed by buying or selling foreign currency options and forward contracts which enable the Company to fix foreign currency commitments in U.S. Dollars.

Excluding the non-cash impact of the cumulative effect of change in accounting principles, U S WEST's 1992 debt-to-capital ratio was 46.8 percent, compared to 49.8 percent at December 31, 1991. U S WEST's reported 1992 debt-to-capital ratio was 51.7 percent. The increase in the debt-to-capital ratio was attributable to the effects of adopting SFAS Nos. 106 and 112 which reduced shareowners' equity by $1,793.4.

Total capital expenditures were $2,598 in 1992 compared with $2,654 in 1991. Capital expenditures at U S WEST Communications were $2,357 in 1992 and $2,168 in 1991. The 1992 capital expenditures of U S WEST Communications were substantially devoted to the continued modernization of rural and urban telephone plant, including investments in fiber optic cable and the conversion of central offices to digital technology, in order to improve customer service and network productivity.

In 1993, capital expenditures are expected to approximate $2.5 billion, including $2.2 billion at U S WEST Communications. In addition, financing requirements for portfolio growth in the Capital Assets segment could approximate $700 in 1993. Capital Assets required no additional debt financing in 1992.

The Company's dividend growth rate has slowed in recent years, due largely to the effects of slower earnings growth and U S WEST's commitment to business expansion and network modernization. Dividends increased by $.04, to $2.12 per share in 1992, an increase of 1.9 percent. Continued dividend growth could be affected by projected financing requirements related to new strategic directions.

U S WEST maintains a commercial paper program to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market. In addition, the Company maintains lines of credit aggregating approximately $1,725, all which was available at December 31, 1992. Under registration statements filed with the Securities and Exchange Commission, as of February 1, 1993, U S WEST companies were permitted to issue up to approximately $1.3 billion of debt securities.

RESULTS OF OPERATIONS – 1991 COMPARED TO 1990

	1991	1990	Increase (Decrease) $	%
Net income	$ 553.4	$ 1,198.9	$ (645.5)	(53.8)
Earnings per share	1.38	3.11	(1.73)	(55.6)

Absent the effects of the restructuring charge, 1991 income was $1,143.4, a decrease of 4.6 percent, and earnings per share were $2.85, a decrease of 8.4 percent compared to last year.

Operating income by industry segment follows:

	1991	1990	Increase (Decrease) $	%
Communications and Related Services	$ 1,671.7	$ 2,079.3	$ (407.6)	(19.6)
Capital Assets	(469.1)	80.7	(549.8)	-

The restructuring charge reduced 1991 operating income of the Communications and Related Services segment by $365 and the Capital Assets segment by $550. Absent the restructuring charge, operating income of the Communications and Related Services segment would have decreased by $42.6, or 2.0 percent, primarily as a result of lower operating income in telephone and cellular operations, and increased equity losses associated with international investing activities, partially offset by higher operating income from publishing activities. Operating income of the Capital Assets segment, excluding the effects of the restructuring charge, was essentially flat, with increased income associated with financial guarantee insurance activities offset by lower income from financial services and real estate activities.

SALES AND OTHER REVENUES

	1991	1990	Increase (Decrease) $	%
Communications and Related Services	$9,479.8	$9,314.2	$ 165.6	1.8
Capital Assets	1,097.4	643.1	454.3	70.6
Total sales and other revenues	$10,577.2	$9,957.3	$ 619.9	6.2

The increase in sales and other revenues included a $400 increase in real estate sales and 2.3 percent growth in U S WEST's other operations.

Communications and Related Services Segment Revenues

	1991	1990	Increase (Decrease) $	%
U S WEST Communications operations:				
Local service	$ 3,500.6	$ 3,390.3	$ 110.3	3.3
Access charges - interstate	2,023.4	2,093.4	(70.0)	(3.3)
Access charges - intrastate	649.7	586.8	62.9	10.7
Long distance network service	1,462.7	1,493.2	(30.5)	(2.0)
Miscellaneous	528.0	529.1	(1.1)	(0.2)
	8,164.4	8,092.8	71.6	0.9
Publishing, cellular and other	1,315.4	1,221.4	94.0	7.7
Total segment revenues	$ 9,479.8	$ 9,314.2	$ 165.6	1.8

An analysis of the change in U S WEST Communications' revenues follows:

Local Service

Rate Changes	Higher Refunds	Demand	Reclassifications and Other	Increase (Decrease) $	%
$47.2	$(10.0)	$84.6	$(11.5)	$110.3	3.3

The increase in local service revenues was primarily attributable to increased customer demand for services, as evidenced by a 3.0 percent increase in network access lines during the past year, and some rate increases. These volume and rate increases were partially offset by the effects of refunds.

Interstate Access Charges

Rate Changes	Higher Refunds	Demand	Reclassifications and Other	Increase (Decrease) $	%
$(191.0)	$(2.4)	$105.8	$17.6	$(70.0)	(3.3)

The decrease in interstate access charges is primarily a result of lower interstate access rates ordered by the FCC. U S WEST Communications reduced interstate access rates effective in July 1990 to comply with existing FCC limitations on rates of return. Further reductions were made in January and July of 1991 as a result of the FCC's adoption of price cap regulation for interstate services, which included a reduction in the authorized rate of return from 12 percent to 11.25 percent, effective January 1991. An FCC-mandated cost shift to intrastate jurisdictions also reduced interstate access revenues. These effects were partially offset by higher demand for interstate access services, as evidenced by an increase of 7.4 percent in interstate billed access minutes of use.

Intrastate Access Charges

Rate Changes	Higher Refunds	Demand	Reclassifications and Other	Increase (Decrease) $	%
$2.1	$(8.4)	$47.8	$21.4	$62.9	10.7

Intrastate access charges increased primarily as a result of increased demand and the effects of reclassifying certain revenues from local service. Excluding the effects of the reclassification, intrastate access revenues increased by $44.4, or 7.6 percent. Intrastate billed access minutes of use increased by 7.1 percent.

Long Distance Network Service

Rate Changes	Higher Refunds	Demand	Reclassifications and Other	Increase (Decrease) $	%
$(11.6)	$(16.1)	$.1	$(2.9)	$(30.5)	(2.0)

Aggregate demand for long distance network services was essentially flat. The decline in revenues was largely related to the effects of interexchange competition. Rate reductions and a customer refund also contributed to the decline in revenues.

Publishing, Cellular and Other

	1991	1990	Increase (Decrease) $	%
Publishing	$ 890.7	$ 842.6	$ 48.1	5.7
Cellular and paging	324.9	273.9	51.0	18.6
Other - net	99.8	104.9	(5.1)	(4.9)
Total	$ 1,315.4	$ 1,221.4	$ 94.0	7.7

Publishing revenues increased primarily as a result of price increases. Although U S WEST expanded its cellular customer base by approximately 39.7 percent in 1991, the rate of cellular customer growth slowed and the average cellular revenue per customer declined by 6.6 percent.

Capital Assets Segment Revenues

	1991	1990	Increase (Decrease) $	Increase (Decrease) %
Financial services	$ 333.8	$ 327.1	$ 6.7	2.0
Financial guarantee insurance	117.0	70.5	46.5	66.0
Real estate	652.1	245.9	406.2	165.2
Other - net	(5.5)	(0.4)	(5.1)	-
Total segment revenues	$ 1,097.4	$ 643.1	$ 454.3	70.6

The increase in real estate revenues was attributable to an increase in building sales of approximately $400. Excluding the increase in building sales, revenues of the Capital Assets segment increased by 8.4 percent. Increased revenues from financial guarantee insurance was the result of higher premiums and an increase in net investment income.

COSTS AND EXPENSES

	1991	1990	Increase (Decrease) $	Increase (Decrease) %
Cost of services and products	$ 3,249.9	$ 2,775.0	$ 474.9	17.1
Selling, general and administrative	2,992.0	2,904.4	87.6	3.0
Depreciation and amortization	1,876.1	1,844.9	31.2	1.7
Restructuring charge	915.0	-	915.0	-
Interest expense	768.3	733.2	35.1	4.8
Other income (expense) - net	(35.2)	59.7	(94.9)	(159.0)

Approximately $400 of the increase in cost of services and products is attributable to building sales. Absent the increase in building sales, cost of services and products increased approximately 3.0 percent as a result of higher operating costs associated with real estate operations, an increase in the cellular subscriber base and a rise in production costs associated with publishing activities.

The increase in selling, general and administrative costs was a result of increases in benefit costs at U S WEST Communications, marketing costs related to cellular, publishing and financial guarantee insurance activities, and the provision for credit losses associated with financial services.

The increase in depreciation and amortization expense was a result of a higher depreciable asset base and depreciation adjustments at U S WEST Communications related to AFOR plans implemented in the states of Washington and Oregon. Largely offsetting these factors at U S WEST Communications were the completion of inside wire and depreciation reserve deficiency amortization programs in several jurisdictions.

Interest expense increased principally as a result of increased borrowing for the purpose of funding capital expenditures related to telephone and cellular operations, partially offset by a reclassification to other income (expense) of interest expense not related to capital obligations. Portfolio growth in financial services, partially offset by lower interest rates, also contributed to the increase. U S WEST's average borrowing cost decreased to 8.3 percent from 8.8 percent in 1990.

The decrease in other income (expense) includes higher joint venture start-up losses associated with expanding international investments. These losses totaled $59.9 in 1991, an increase of $47.8 over 1990. The previously mentioned reclassification of interest expense also contributed to the decrease.

PROVISION FOR INCOME TAXES

	1991	1990	Increase (Decrease) $	%
Provision for income taxes	$ 187.3	$ 560.6	$ (373.3)	(66.6)
Effective tax rate	25.3%	31.9%	-	-

The decline in provision for income taxes as a percentage of income before income taxes was almost entirely a result of the restructuring charge. Excluding the effects of the restructuring charge, the 1991 effective tax rate would have been 31.0 percent.

OTHER ITEMS

On July 11, 1991, shareowners of U S WEST NewVector Group, Inc. ("NewVector"), the Company's cellular and paging subsidiary, voted to approve the Company's merger offer, making NewVector a wholly-owned subsidiary of U S WEST. Pursuant to the merger, the Company issued approximately 11.1 million shares of U S WEST common stock valued at approximately $399 to former shareowners of NewVector. The merger was accounted for as a purchase and the resulting goodwill of approximately $375 is being amortized on a straight line basis over 40 years.

LIQUIDITY AND CAPITAL RESOURCES

During 1991, U S WEST successfully completed an offering of zero coupon, subordinated notes which are convertible at any time into U S WEST common shares. Net proceeds of approximately $391.3 were used to reduce short-term debt.

Total capital expenditures were $2,654 in 1991 compared with $2,559 in 1990. Capital expenditures at U S WEST Communications were $2,168 in 1991 and $1,990 in 1990.

U S WEST Communications' capital expenditures were financed primarily by internally generated funds during 1991, though somewhat higher levels of debt were required to fund such expenditures than in past years. Other U S WEST operations, including members of the Capital Assets segment, used external sources of financing during 1991.

REPORT OF MANAGEMENT

The consolidated financial statements of U S WEST have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The integrity and objectivity of information in these financial statements, including estimates and judgments, are the responsibility of management as is all other financial information included in this report.

U S WEST maintains a system of internal accounting controls designed to provide a reasonable assurance as to the integrity and reliability of financial statements, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes an internal audit program designed to objectively assess the effectiveness of internal controls and recommend improvements therein. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. U S WEST believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives. The independent certified public accountants, whose report is included herein, are engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Audit Committee of the Board of Directors. The Audit Committee is composed of outside directors who meet regularly with management, internal auditors and independent auditors to review financial reporting matters, the scope of audit activities and the resolution of audit findings.

RICHARD D. McCORMICK
CHAIRMAN
AND CHIEF EXECUTIVE OFFICER

JAMES M. OSTERHOFF
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

JANUARY 21, 1993

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of U S WEST, Inc.:

We have audited the accompanying consolidated balance sheets of U S WEST, Inc. as of December 31, 1992 and 1991, and related consolidated statements of income and cash flows for each of the three years ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U S WEST, Inc. as of December 31, 1992 and 1991, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, the Company changed its method of accounting for postretirement benefits other than pensions and other postemployment benefits in 1992.

COOPERS & LYBRAND

DENVER, COLORADO
JANUARY 21, 1993

U S WEST, INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions (except per share amounts)	Year Ended December 31, 1992	1991	1990
Sales and other revenues	$10,281.1	$10,577.2	$ 9,957.3
Cost of services and products	2,835.8	3,249.9	2,775.0
Selling, general and administrative	3,150.8	2,992.0	2,904.4
Depreciation and amortization	1,890.1	1,876.1	1,844.9
Restructuring charge	–	915.0	–
Interest expense	626.2	768.3	733.2
Other income (expense) – net	(63.8)	(35.2)	59.7
Income before income taxes and cumulative effect of change in accounting principles	1,714.4	740.7	1,759.5
Provision for income taxes	535.0	187.3	560.6
Income before cumulative effect of change in accounting principles	1,179.4	553.4	1,198.9
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES:			
Transition effect of change in accounting for postretirement benefits other than pensions and other postemployment benefits, net of tax	(1,793.4)	–	–
Net income (loss)	$ (614.0)	$ 553.4	$ 1,198.9
Earnings per share before cumulative effect of change in accounting principles	$ 2.86	$ 1.38	$ 3.11
Cumulative effect of change in accounting principles	(4.35)	–	–
Earnings (loss) per share	$ (1.49)	$ 1.38	$ 3.11

Dividends per share	$ 2.12	$ 2.08	$ 2.00
Return on shareowners' equity	*	5.7%	13.7%
Average shares outstanding (thousands)	412,518	401,332	386,012

*1992 return on shareowners' equity, based on income before cumulative effect of change in accounting principles, is 14.4%.

The accompanying notes are an integral part of the Consolidated Financial Statements.

U S WEST, Inc.

CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1992	1991
ASSETS		
Current assets:		
Cash and cash equivalents	$ 204.3	$ 655.8
Short-term investments	1.5	161.2
Accounts and notes receivable, less allowance for credit losses of $67.0 and $73.1, respectively	1,909.1	1,993.7
Inventories and supplies	196.6	219.1
Prepaid and other	358.5	365.3
Total current assets	2,670.0	3,395.1
Property, plant and equipment – net	18,712.3	18,063.8
Finance receivables – net	2,994.3	2,838.4
Other	3,587.0	3,556.8
Total assets	$27,963.6	$27,854.1
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities:		
Short-term debt	$ 2,126.2	$ 1,873.2
Accounts payable	1,127.3	890.9
Employee compensation	392.4	389.9
Other	1,478.9	1,695.4
Total current liabilities	5,124.8	4,849.4
Long-term debt	6,736.9	7,629.2
Postretirement benefit obligation	2,671.2	–
Deferred taxes and credits	5,162.8	5,788.1
Shareowners' equity:		
Common shares – no par, 2,000,000,000 authorized; 421,611,063 and 417,663,589 issued; 414,461,871 and 409,936,376 outstanding, respectively	5,770.2	5,606.5
Retained earnings	2,826.1	4,316.1
LESOP guarantee	(294.4)	(341.7)
Foreign currency translation adjustments	(34.0)	6.5
Total shareowners' equity	8,267.9	9,587.4
Total liabilities and shareowners' equity	$27,963.6	$27,854.1

The accompanying notes are an integral part of the Consolidated Financial Statements.

U S WEST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions	Year Ended December 31, 1992	1991	1990
OPERATING ACTIVITIES			
Net income (loss)	$ (614.0)	$ 553.4	$ 1,198.9
Adjustments to net income:			
Depreciation and amortization	1,890.1	1,876.1	1,844.9
Cumulative effect of change in accounting principles	1,793.4	–	–
Deferred income taxes and amortization of investment tax credits	98.8	(313.8)	191.3
Restructuring charge	–	915.0	–
Changes in operating assets and liabilities:			
Accounts and notes receivable	28.4	29.0	(66.6)
Inventories, supplies and other	(24.6)	(25.4)	(60.6)
Accounts payable and accrued liabilities	(0.1)	60.4	(107.9)
Other – net	120.2	(128.8)	(178.1)
Cash provided by operating activities	3,292.2	2,965.9	2,821.9
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,260.8)	(2,590.1)	(2,558.9)
Investment in finance receivables	(880.1)	(1,007.4)	(1,109.3)
Principal payments received on finance receivables	788.2	875.3	703.9
Proceeds from disposals of property, plant and equipment	172.1	548.3	81.1
Other – net	(171.3)	(217.0)	(248.1)
Cash (used for) investing activities	(2,351.9)	(2,390.9)	(3,131.3)
FINANCING ACTIVITIES			
Net (repayments) proceeds of short-term debt	(3.4)	(212.5)	276.0
Proceeds from issuance of long-term debt	963.4	1,600.3	1,243.5
Repayments of long-term debt	(1,647.1)	(939.9)	(1,096.5)
Dividends paid	(796.0)	(755.6)	(688.2)
Proceeds from issuance of common stock	91.3	124.3	630.6
Cash (used for) provided by financing activities	(1,391.8)	(183.4)	365.4
CASH AND CASH EQUIVALENTS			
Increase (decrease)	(451.5)	391.6	56.0
Beginning balance	655.8	264.2	208.2
Ending balance	$ 204.3	$ 655.8	$ 264.2

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The consolidated financial statements include the accounts of U S WEST, Inc. and its majority-owned subsidiaries ("U S WEST" or "Company"). All significant intercompany accounts and transactions have been eliminated, except as otherwise required under generally accepted accounting principles ("GAAP") applicable to regulated entities. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are generally accounted for using the equity method.

The regulated telephone operations of U S WEST, hereafter referred to as U S WEST Communications, are included in the consolidated financial statements in accordance with GAAP applicable to regulated enterprises.

Certain reclassifications within the financial statements have been made to conform to the current year presentation.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include highly liquid investments with original maturities of three months or less which are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

SHORT-TERM INVESTMENTS: Investments with original maturities of three months to one year are carried at cost, which approximates market.

INVENTORIES AND SUPPLIES: New and reusable materials of U S WEST Communications are carried at average cost, except for significant individual items which are valued based on specific costs. Non-reusable material is carried at its estimated salvage value. Inventories of U S WEST's non-telephone operations are carried at the lower of cost or market on a first-in, first-out basis.

PROPERTY, PLANT AND EQUIPMENT: The investment in property, plant and equipment is carried at cost, less accumulated depreciation, except for certain real estate assets held for sale which are net of a valuation allowance. Additions, replacements and substantial betterments are capitalized. Costs for normal repair and maintenance of property, plant and equipment are charged to expense as incurred.

U S WEST Communications capitalizes the cost of debt and equity funds as a component of telephone plant construction. Interest related to qualifying construction projects is also capitalized by non-telephone operations. Capitalized interest is reflected as a reduction of interest expense, except at U S WEST Communications where it is included as an element of other income. Amounts capitalized by U S WEST were $28.8, $73.0 and $75.0 in 1992, 1991 and 1990, respectively.

U S WEST Communications' provision for depreciation of property, plant and equipment is based on various straight line group methods using remaining service lives authorized by regulatory commissions. When depreciable property, plant and equipment is retired or sold, the original cost less the net salvage value is charged to accumulated depreciation. Any resulting depreciation deficiencies are amortized over the remaining life of the telephone plant or over shortened periods if authorized by regulatory authorities.

The non-telephone operations of U S WEST provide for depreciation using both straight line and accelerated methods. When depreciable property, plant and equipment is retired or sold, the resulting gain or loss is recognized currently as an element of other income.

REVENUE RECOGNITION: Local telephone service and cellular access revenues are generally billed monthly in advance and revenues are recognized the following month when services are provided. Revenues derived from other telephone services, including exchange access, long distance and cellular airtime usage, are billed and recorded monthly as services are provided.

Directory advertising revenues and related directory costs are generally deferred and recognized over the period during which directories are utilized, normally 12 months. The balance of deferred directory costs included in prepaid and other is $186.8 and $183.4 at December 31, 1992 and 1991, respectively.

Certain subsidiaries act as lessors in direct financing and leveraged lease transactions. For direct financing leases, unearned income is amortized over the lease term in a manner which approximates a constant rate of return on the net investment. Unearned income represents the excess of the net minimum lease payments receivable plus the estimated residual value over the cost of the equipment leased. For leveraged leases, the cost of the assets leased is financed primarily through non-recourse debt which is netted against the related lease receivable. The components of leveraged lease income, which include finance income and amortized investment tax credits, are recognized over the lease term at a level rate of return in years when the net investment is positive.

Interest income on loans is accrued as earned, based on the interest method.

Income on financial guarantee insurance premiums is earned in proportion to the amount of risk outstanding over the period of coverage. The balance of unearned premiums included in deferred taxes and credits at December 31, 1992 and 1991, is $198.8 and $184.8, respectively.

FINANCIAL INSTRUMENTS: Income or expense on interest rate swap agreements is recognized over the life of the agreements as an adjustment to interest expense. Gains, losses and premiums on interest rate option agreements and foreign currency option and forward contracts, designated and effective as hedges, are deferred and recognized with the assets, liabilities or transactions being hedged.

INCOME TAXES: The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods, reflected at current income tax rates, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 96. In 1993, U S WEST will implement SFAS No. 109, "Accounting for Income Taxes." Adoption of the new standard will not have a material effect on the financial position or results of operations, primarily because of the Company's earlier adoption of SFAS No. 96.

For financial statement purposes, deferred investment tax credits of U S WEST Communications are being amortized as a reduction of the provision for income taxes over the service lives of the related property, plant and equipment.

EARNINGS (LOSS) PER SHARE: Earnings (loss) per share are computed on the basis of the weighted average number of shares of common stock outstanding during each year.

NOTE 2: INDUSTRY SEGMENT INFORMATION

The Communications and Related Services segment includes activities related to local, long distance and network access services to customers in 14 states, cellular communications products and services, marketing of communications products and services to business customers, publishing of telephone and other directories, and international cable television and telecommunications activities.

U S WEST Capital Corporation ("Capital Corporation") provides diversified financial services through U S WEST Financial Services, Inc. ("Financial Services") and provides financial guarantee insurance policies for corporate and municipal clients through a 92 percent owned subsidiary Financial Security Assurance Inc. ("FSA"). U S WEST Real Estate, Inc. ("Real Estate"), which, together with Capital Corporation comprise the Capital Assets segment, has curtailed further real estate development activities and is in the process of disposing of its existing real estate portfolio. In 1992, revenues and operating expenses, including financing costs, associated with Real Estate were charged against a valuation allowance established in 1991 (see Note 12).

Operating income on a segment basis includes certain amounts that are classified as interest expense or other income (expense) in the consolidated statements of income. For Capital Assets, interest expense is included as part of operating income. For Communications and Related Services, operating income includes international equity losses of $42.7, $59.9 and $12.1 in 1992, 1991 and 1990, respectively.

U S WEST provides network access services to interexchange carriers, the largest volume of which is provided to American Telephone and Telegraph Company ("AT&T"). During 1992, 1991 and 1990 revenues related to these services provided to AT&T were $1,203, $1,267 and $1,430, respectively. Related accounts receivable at December 31, 1992 and 1991, totaled $109.2 and $101.2, respectively.

The following information is provided by industry segment:

	Year Ended December 31,		
	1992	1991	1990
SALES AND OTHER REVENUES			
Communications and Related Services	$ 9,824.9	$ 9,479.8	$ 9,314.2
Capital Assets			
Capital Corporation	456.2	445.3	397.2
Real Estate*	–	652.1	245.9
	$10,281.1	$10,577.2	$ 9,957.3
OPERATING INCOME			
Communications and Related Services*	$ 2,043.4	$ 1,671.7	$ 2,079.3
Capital Assets			
Capital Corporation*	145.1	64.4	97.7
Real Estate*	–	(533.5)	(17.0)
Interest (expense), excluding Capital Assets	(453.1)	(476.7)	(460.0)
Other income (expense) – net	(21.0)	14.8	59.5
Income before income taxes and cumulative effect of change in accounting principles	$ 1,714.4	$ 740.7	$ 1,759.5
IDENTIFIABLE ASSETS			
Communications and Related Services	$22,277.8	$21,723.1	$21,090.7
Capital Assets			
Capital Corporation	4,365.0	4,311.3	4,140.2
Real Estate	1,138.1	1,139.2	1,590.1
Corporate	182.7	680.5	229.2
	$27,963.6	$27,854.1	$27,050.2
DEPRECIATION AND AMORTIZATION			
Communications and Related Services	$ 1,880.5	$ 1,824.4	$ 1,800.7
Capital Assets			
Capital Corporation	9.6	14.3	11.5
Real Estate*	–	37.4	32.7
	$ 1,890.1	$ 1,876.1	$ 1,844.9
CAPITAL EXPENDITURES			
Communications and Related Services	$ 2,554.2	$ 2,425.6	$ 2,216.5
Capital Assets			
Capital Corporation	1.1	5.1	5.0
Real Estate	42.4	223.7	337.4
	$ 2,597.7	$ 2,654.4	$ 2,558.9
TOTAL DEBT			
Communications and Related Services	$ 5,632.1	$ 5,746.2	$ 5,571.3
Capital Assets			
Capital Corporation	2,324.5	2,456.6	2,463.0
Real Estate	1,388.7	1,356.4	1,386.9
Corporate	745.9	761.1	421.3
Intersegment eliminations	(1,228.1)	(817.9)	(844.9)
	$ 8,863.1	$ 9,502.4	$ 8,997.6
DEBT-TO-CAPITAL RATIO (PERCENT)			
Communications and Related Services	43.8	40.0	40.6
Capital Corporation	71.4	74.4	77.2
Consolidated	51.7	49.8	49.3

* In 1991, as a result of the restructuring charge described in Note 12, operating income of the Communications and Related Services segment and the Capital Assets segment was reduced by approximately $365 and $550, respectively. Approximately $500 of the charge related to Capital Assets was a Real Estate valuation allowance. In 1992, the income statement activity of Real Estate was charged to the valuation allowance (see Note 12).

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment follows:

	December 31, 1992	December 31, 1991
Land and buildings	$ 2,433.1	$ 2,317.9
Telephone network equipment and outside plant	21,242.7	20,040.0
Other	3,303.7	3,426.8
Construction in progress	682.6	658.1
	27,662.1	26,442.8
Less accumulated depreciation on:		
Buildings	530.0	465.5
Telephone network equipment and outside plant	7,821.9	7,078.8
Other	1,318.8	1,551.4
	9,670.7	9,095.7
Real estate held for sale – net*	720.9	716.7
Property, plant and equipment – net	$18,712.3	$18,063.8

* Real estate held for sale is net of accumulated depreciation and a valuation allowance of $402.5 and $500 at December 31, 1992 and 1991, respectively (see Note 12).

NOTE 4: DEBT

The components of short-term debt follow:

	December 31, 1992	December 31, 1991
Notes payable		
Commercial paper	$ 983.3	$ 866.6
Other	35.5	26.5
Current portion of long-term debt	1,107.4	980.1
Total	$2,126.2	$1,873.2

Long-term debt consists principally of debentures and medium term notes, debt associated with the Company's Leveraged Employee Stock Ownership Plans (LESOP), and zero coupon, convertible notes as described below.

Interest rates and maturities of long-term debt at December 31 follow:

Interest rates	MATURITIES 1994	1995	1996	1997	Thereafter	TOTAL 1992	TOTAL 1991
Up to 5%	$480.2	$150.0	$ 50.0	$ 10.0	$ 285.4	$ 975.6	$ 520.4
Above 5% to 6%	22.0	5.0	13.1	–	161.0	201.1	304.9
Above 6% to 7%	30.5	91.5	–	55.5	207.5	385.0	237.5
Above 7% to 8%	16.4	12.9	680.2	24.7	1,689.3	2,423.5	2,700.5
Above 8% to 9%	72.0	21.2	93.5	–	1,989.5	2,176.2	2,514.8
Above 9% to 10%	39.2	60.9	–	76.2	400.0	576.3	1,379.3
Above 10%	–	–	60.0	–	29.2	89.2	129.4
	$660.3	$341.5	$896.8	$166.4	$4,761.9	$6,826.9	$7,786.8
Capital lease obligations and other						90.7	66.3
Unamortized discount – net						(180.7)	(223.9)
Total						$6,736.9	$7,629.2

During 1992, U S WEST refinanced six debt issues aggregating $747 in principal amount. During 1991, the Company issued zero coupon, subordinated notes which are convertible at any time into U S WEST common shares. The notes were recorded at their discounted value of $401.3, with the discount being amortized to interest expense using the interest method. The notes have an effective rate of interest of approximately 7.3 percent.

U S WEST is permitted to borrow up to approximately $1,725 under formal lines of credit, all of which was available at December 31, 1992.

Long-term debt of $123.7 and $166.1 at December 31, 1992 and 1991, respectively, was collateralized by first deeds of trust on associated real estate, assignment of rents from leases, and operating and management agreements.

Interest payments, net of amounts capitalized, were $704.1, $740.9 and $689.7 for 1992, 1991 and 1990, respectively.

NOTE 5: LEASING AND OTHER FINANCING ARRANGEMENTS

As Lessee

U S WEST has entered into operating leases for office facilities, equipment and real estate. Minimum future lease payments as of December 31, 1992, under non-cancellable operating leases, follow:

Year	
1993	$ 139.3
1994	125.9
1995	105.5
1996	93.9
1997	90.6
Thereafter	908.2
Total	$1,463.4

Rent expense under operating leases was $278.8, $215.2 and $190 in 1992, 1991 and 1990, respectively.

As Lessor/Lender

The components of the Company's investment in finance receivables follow:

	December 31, 1992	1991
Receivables	$3,572.4	$3,548.9
Unguaranteed estimated residual values	495.4	510.3
	4,067.8	4,059.2
Less: Unearned income	530.9	592.7
Credit loss and other allowances, including $86.3 in 1992 and $83.8 in 1991 related to receivables acquired	152.1	149.4
	3,384.8	3,317.1
Less: Current portion	390.5	478.7
Finance receivables – net	$2,994.3	$2,838.4

Contractual maturities of finance receivables subsequent to December 31, 1992, follow:

Year	
1993	$ 414.4
1994	293.9
1995	382.2
1996	477.3
1997	361.6
Thereafter	1,643.0
Total	$3,572.4

NOTE 6: FINANCIAL INSTRUMENT DISCLOSURES

Instruments With Off-Balance Sheet Market Risk - Swaps, Options and Forward Contracts

U S WEST is party to various domestic and foreign interest rate swap and option agreements, and foreign currency option and forward contracts for the purpose of managing interest rate exposure and fixing foreign currency commitments in U.S. Dollars. The notional amounts of interest rate swaps are disclosed under "Fair Values of Financial Instruments" below. Based on amounts outstanding at December 31, 1992, if any party to these agreements fails to perform, the estimated accounting loss would not be material to the Company's results of operations or to its financial position.

Instruments With Off-Balance Sheet Credit Risk - Financial Guarantees

FSA is in the business of writing financial guarantee insurance policies which insure the timely payment of principal and interest on corporate and municipal obligations. The principal amounts insured follow:

	CORPORATE (1) December 31,		MUNICIPAL (2) December 31,	
Term to Maturity	1992	1991	1992	1991
0 to 5 Years	$ 5,973	$ 5,364	$ 1,085	$ 669
5 to 10 Years	1,813	2,815	1,520	941
10 to 15 Years	1,708	1,760	1,242	818
15 to 20 Years	391	700	1,421	922
20 and Above	2,506	1,872	3,704	2,673
Total	$12,391	$12,511	$ 8,972	$6,023

(1) Excludes amounts ceded to other insurers of $5,050 and $5,218, in 1992 and 1991, respectively.

(2) Excludes amounts ceded to other insurers of $3,677 and $1,586, in 1992 and 1991, and includes $1,503 and $1,749 of assumed obligations in 1992 and 1991, respectively.

The principal amount of insured obligations in the municipal portfolio, net of amounts ceded, include the following types of issues:

	December 31,	
Type of Issue	1992	1991
General obligation	$ 2,401	$1,742
Single family housing	1,515	1,412
Lease revenues	1,201	834
Utility revenues	1,182	608
Hospital revenues	925	540
Other	1,748	887
Total	$ 8,972	$6,023

FSA limits its exposure to losses from writing financial guarantees by underwriting primarily investment grade obligations, by diversifying its portfolio, by reinsuring with third parties and by maintaining collateral requirements on corporate obligations. Gross corporate guarantees are collateralized by assets of approximately $21,800 and $22,300 at December 31, 1992 and 1991, respectively. At December 31, 1992, the levels of over-collateralization (collateral value divided by gross principal insured) ranged from approximately 103 percent for government debt-backed obligations to 156 percent for obligations backed by utility first mortgages. If an issuer were unable to make debt service payments and the collateral proved to be of no value, the accounting loss on a transaction would equal the present value of the debt service, which approximates the principal value of the insured obligation.

Concentrations of collateral associated with insured corporate obligations, net of amounts ceded, follow:

	December 31,	
Type of Collateral	1992	1991
Residential mortgages	$ 3,361	$ 3,485
Commercial mortgages	2,152	2,238
Corporate debt	1,990	2,076
Government debt (principally U.S.)	2,300	2,033
Consumer receivables	1,895	1,945
Utility first mortgages	693	734
Total	$12,391	$12,511

The Company records a provision for losses and loss adjustment expenses at the present value of the expected loss when the likelihood of default is probable at the balance sheet date. The balance of the reserve for losses and loss adjustment expenses was $58.7 and $10.0 at December 31, 1992 and 1991, respectively.

Significant Group Concentrations of Credit

Following are significant concentrations of credit within the Capital Assets segment's investment in finance receivables:

	December 31,	
Area of Concentration	1992	1991
Air transportation	$570.3	$569.6
Consumer related	478.4	409.8
Power plants	503.2	384.1

The risk of loss on investment in finance receivables is limited by imposing collateral and credit requirements on a case-by-case basis and by portfolio diversification. Collateral includes letters of credit, real estate, plant and equipment, and other tangible assets.

Fair Values of Financial Instruments

Fair values of cash equivalents, short-term investments, short-term debt and other current amounts receivable and payable approximate the carrying amount.

Amounts receivable and payable related to foreign currency options and forward contracts which are used to hedge foreign commitments are recorded at fair value based on currency exchange rates in effect at the balance sheet date.

Following are methods and assumptions used to estimate the fair values of other categories of financial instruments.

Marketable debt securities held for investment

For obligations of municipalities, fair value is based on quoted market prices. The fair value of corporate debt securities is based on quoted market prices where available or, if not available, is estimated using quoted market prices of similar instruments or by discounting future cash flows using current, risk adjusted interest rates.

Loans and other finance receivables

Fair values of loans and other finance receivables, excluding leases, are based on discounting future cash flows using current, risk adjusted interest rates.

Debt

Fair value of debt is based on quoted market prices where available or, if not available, is based on discounting future cash flows using current interest rates. Fair value of debt includes the effects of variable to fixed and fixed to variable interest rate swaps on notional principal amounts of $1,000 and $440, respectively. Fair value of interest rate swaps is based on estimated amounts the Company would receive or pay to terminate such agreements taking into account current interest rates and creditworthiness of the counterparties.

The following table sets forth the fair value of marketable debt securities held for investment:

	December 31, 1992		December 31, 1991	
Type of Debt Security	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Municipal	$ 533.7	$ 551.4	$492.8	$510.2
Corporate	233.5	237.3	291.4	292.8
Other	232.9	239.3	153.2	162.1
Total	$1,000.1	$1,028.0	$937.4	$965.1

The following table sets forth the estimated fair value of other financial instruments on the Company's balance sheet:

	December 31,1992	
	Carrying Amount	Fair Value
ASSETS		
Loans and other finance receivables	$2,517	$2,530
LIABILITIES		
Debt	8,863	9,070

NOTE 7: SHAREOWNERS' EQUITY

Following are transactions affecting shareowners' equity:

	Common Shares			Foreign Currency
	Shares (thousands)	Amount	Retained Earnings	Translation Adjustments
BALANCE AT JANUARY 1, 1990	186,996	$ 4,317.4	$ 4,179.4	
Issuance of treasury shares	3,401	124.3		
Issuance of common stock	16,100	576.8		
Net income			1,198.9	
Dividends ($2.00 per share)			(776.6)	
Stock split	186,996			
Foreign currency translation adjustments				$ 6.2
Other – net		(5.2)	3.7	
BALANCE AT DECEMBER 31, 1990	393,493	5,013.3	4,605.4	6.2
Issuance of treasury shares	1,337	49.0		
Issuance of common stock	15,106	545.2		
Net income			553.4	
Dividends ($2.08 per share)			(842.7)	
Foreign currency translation adjustments				.3
Other – net		(1.0)		
BALANCE AT DECEMBER 31, 1991	409,936	5,606.5	4,316.1	6.5
Issuance of treasury shares	578	20.4		
Issuance of common stock	3,948	144.4		
Net loss			(614.0)	
Dividends ($2.12 per share)			(876.0)	
Foreign currency translation adjustments				(40.5)
Other – net		(1.1)		
BALANCE AT DECEMBER 31, 1992	414,462	$ 5,770.2	$ 2,826.1	$ (34.0)

U S WEST has 50,000,000 authorized shares of preferred stock, of which none have been issued.

At December 31, 1992, the Company held 7,149,192 treasury shares with a cost basis of $146.5.

On July 11, 1991, shareowners of U S WEST NewVector Group, Inc. ("NewVector") voted to approve the Company's merger offer, making NewVector a wholly-owned subsidiary of U S WEST. Pursuant to the merger, the Company issued approximately 11.1 million shares of U S WEST common stock valued at approximately $399 to former shareholders of NewVector. The merger was accounted for as a purchase and the resulting goodwill of approximately $375 is being amortized on a straight line basis over a period of 40 years.

On May 23, 1990, U S WEST issued 16,100,000 additional shares of common stock for cash proceeds of approximately $577.

Leveraged Employee Stock Ownership Plans (LESOP)

U S WEST maintains employee savings plans for management and non-management employees under which the Company matches a certain percentage of eligible contributions made by the employees with shares of Company stock. The Company established two LESOPs in 1989 to provide the Company stock used for matching contributions to the savings plans.

The long-term debt of the LESOP trusts, which is unconditionally guaranteed by the Company, is included in the accompanying consolidated balance sheets and corresponding amounts have been recorded as reductions to shareowners' equity. The trusts will repay the debt with Company contributions and certain dividends received on shares of the Company's common stock held by the LESOP. Total Company contributions to the trusts (excluding dividends) were $77.7, $70.9 and $71.1 in 1992, 1991 and 1990, respectively, of which $27.8, $31.7 and $35.1, respectively, have been classified as interest expense. The Company recognizes expense based on the cash payments method. Dividends on unallocated shares held by the LESOP were $17.3, $20.1 and $22.5 in 1992, 1991 and 1990, respectively.

Shareholder Rights Plan

The Board of Directors of the Company has adopted a Shareholder Rights Plan which, in the event of a takeover attempt, would entitle existing shareowners to certain preferential rights. The rights expire on April 6, 1999, and are redeemable by the Company at any time prior to the date they would become effective.

NOTE 8: STOCK INCENTIVE PLANS

U S WEST maintains stock incentive plans for executives and key employees. The Human Resources Committee of the Board of Directors is responsible for the administration of the executive plan, which provides for the grant of options, stock appreciation rights (SARs) associated with stock options and the grant and sale of restricted and non-restricted stock. The Board of Directors has delegated the administration of the non-executive plan to a special committee. Options must be exercised no later than ten years and one month after the date upon which the option was granted. A total of 17,000,000 shares of U S WEST common stock are reserved for issuance under the plans.

Data for outstanding options under the plans is summarized below:

	Number of Shares*	Average Option Price
OUTSTANDING JANUARY 1, 1990	1,707,062	$ 26.44
Granted	1,185,747	37.44
Exercised	(543,494)	26.17
Cancelled or expired	(42,532)	26.74
OUTSTANDING DECEMBER 31, 1990	2,306,783	32.15
Granted	1,415,502	35.30
Exercised	(277,760)	25.91
Cancelled or expired	(24,119)	35.34
OUTSTANDING DECEMBER 31, 1991	3,420,406	33.94
Granted	1,410,311	38.13
Exercised	(327,221)	26.15
Cancelled or expired	(53,346)	36.17
OUTSTANDING DECEMBER 31, 1992	4,450,150	$ 35.81

* Includes options granted in tandem with SARs.

Options to purchase 913,312 and 1,043,202 shares were exercisable at December 31, 1992 and 1991, respectively. A total of 10,111,549 and 11,581,211 shares of U S WEST common stock were available for grant under the plans at December 31, 1992 and 1991, respectively.

NOTE 9: EMPLOYEE BENEFITS

Pension Plans

U S WEST has two defined benefit pension plans which cover substantially all management and non-management employees which, effective January 1, 1993, were merged into a single plan. Management benefits are based upon a final pay formula while non-management benefits are based upon a flat benefit formula. U S WEST uses the projected unit credit method for the determination of pension cost for financial reporting purposes and the aggregate cost method for funding purposes. No funding was required in 1992, 1991 or 1990.

The composition of the pension credit and the actuarial assumptions of the plans follow:

	Year Ended December 31,		
	1992	1991	1990
Details of pension credit:			
Service cost – benefits earned during the period	$ 141.1	$ 124.0	$ 119.2
Interest cost on projected benefit obligation	479.6	466.0	438.1
Actual return on plan assets	(410.8)	(1,312.0)	175.4
Net amortization and deferral	(318.3)	613.4	(842.1)
Net pension credit	$(108.4)	$ (108.6)	$(109.4)
Actuarial assumptions (in percent):			
Weighted average discount rate	8.25	8.50	8.50
Expected long-term rate of return on plan assets	9.25	9.50	9.50
Rate of increase in future compensation levels	5.50	5.50	5.50

The funded status of the plans follow:

	December 31,	
	1992	1991
Accumulated benefit obligation, including vested benefits of $4,867 and $4,426, respectively.	$5,192.0	$4,716.0
Plan assets at fair value, primarily stocks and bonds	$8,068.8	$8,024.0
Less: Projected benefit obligation	6,555.0	6,036.0
Plan assets in excess of projected benefit obligation	1,513.8	1,988.0
Less: Unrecognized experience gain	24.1	554.0
Prior service cost not yet recognized in net periodic pension cost	77.3	27.0
Balance of unrecognized net asset at January 1, 1987	945.0	1,025.0
Prepaid pension asset	$ 467.4	$ 382.0

Anticipated future benefit changes have been reflected in the above calculations. The weighted average discount rate for determining the benefit obligation as of December 31, 1992, was 8.25 percent.

Postretirement Benefits Other Than Pensions

U S WEST and most of its subsidiaries provide certain health care and life insurance benefits for retired employees. Effective January 1, 1992, U S WEST adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 mandates that employers reflect in their current expenses an accrual for the cost of providing retirement medical and life insurance benefits to current and future retirees. Prior to 1992, U S WEST recognized these costs as they were paid. Adoption of SFAS No. 106 resulted in a one-time, non-cash charge against 1992 earnings of $1,740.7, net of a deferred income tax benefit of $1,037.7, for the prior service of active and retired employees. U S WEST used the projected unit credit method for the determination of postretirement medical costs.

In conjunction with the adoption of SFAS No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets. On December 26, 1991, the Federal Communications Commission ("FCC") released an order permitting adoption of SFAS No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," a regulatory asset associated with the recognition of the transition benefit obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

The composition of postretirement benefit costs for the year ended December 31, 1992, and actuarial assumptions underlying plan benefits follow:

Details of postretirement benefit costs:	
Service cost – benefits earned during the period	$ 66.9
Interest cost on accumulated benefit obligation	255.9
Expected return on plan assets	(47.8)
Net postretirement benefit costs	$275.0
Actuarial assumptions (in percent):	
Weighted average discount rate	8.00
Expected long-term rate of return on plan assets	9.00
Medical cost trend rate*	11.00

* Medical cost trend rate gradually declines to an ultimate rate of 6.25% in 2006.

A one percent increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1992 net postretirement benefit costs by approximately $45.

During 1991, the cost of postretirement health care and life insurance benefits for the Company's retired employees was $120.

The funded status of the plan at December 31, 1992, follows:

Accumulated postretirement benefit obligation attributable to:	
Retirees	$2,089.5
Fully eligible plan participants	257.2
Other active plan participants	1,035.7
Total accumulated postretirement benefit obligation	3,382.4
Less: Fair value of plan assets, primarily stocks, bonds and life insurance	(635.9)
Accrued postretirement benefit obligation	$2,746.5

For U S WEST Communications, the annual amount funded will generally follow the expense recognized for regulatory purposes.

The weighted average discount rate for determining the accumulated postretirement benefit obligation was 8.0 percent at December 31, 1992. A one percent increase in the assumed health care cost trend rates would have increased the accumulated postretirement benefit obligation by approximately $375.

Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under SFAS No. 106.

Other Postemployment Benefits

U S WEST also adopted, effective January 1, 1992, SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires that employers accrue for the estimated costs of benefits, such as workers' compensation and disability, provided to former or inactive employees who are not eligible for retirement. Adoption of SFAS No. 112 resulted in a one-time, non-cash charge against 1992 earnings of $52.7, net of a deferred income tax benefit of $32.3.